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VOL. CLII NO. 235 Wednesday, December 2, 1987 1 Year

Today

TECHNOLOGY

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The CIO is making the executive acronym list, as chief information officers — those who integrate information technologies into the corporate strategy — gain stature. 10

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There are major advantages to proceeding on an incremental basis, starting with securities powers where the rationale for change has been clearly established.

Fed Chairman Alan Greenspan speaking on the expansion of bank powers before the Senate Banking Committee. [Page 1]

Banks Are Wary of Latest Technology

Systems Must Have Proven Usefulness

By YVETTE D. KANTROW
Third of a Series

Bankers are pessimistic about the ability of highly touted technology breakthroughs to improve their daily operations, according to an *American Banker* survey.

They are attracted to technologies that help them operate more efficiently and that improve customer service, the survey found. But bankers are putting less emphasis on high-tech, consumer-oriented products that require major marketing efforts to promote.

The *American Banker*'s first annual technology survey asked bankers to predict whether nine technologies would emerge as staples of the banking industry within the next five years.

Out of the nine, only three — desktop publishing, automated voice response systems for customer service, and 24-hour global trading systems — are considered likely to be in widespread use in the opinion of over 40% of 187 senior operations managers at commercial banks.

The technology survey was based on telephone interviews with senior operations managers at 344 financial institutions — 187 commercial banks and 157 thrifts — with $250 million or more in deposits.

Managing TECHNOLOGY

These are the institutions most likely to run their own operations rather than farm them out to service companies.

The survey was conducted in June and July by Trans Data Corp., Salisbury, Md., a research affiliate of this newspaper.

This is the third of a five-part series reporting some of the survey results. The complete findings will be pub-

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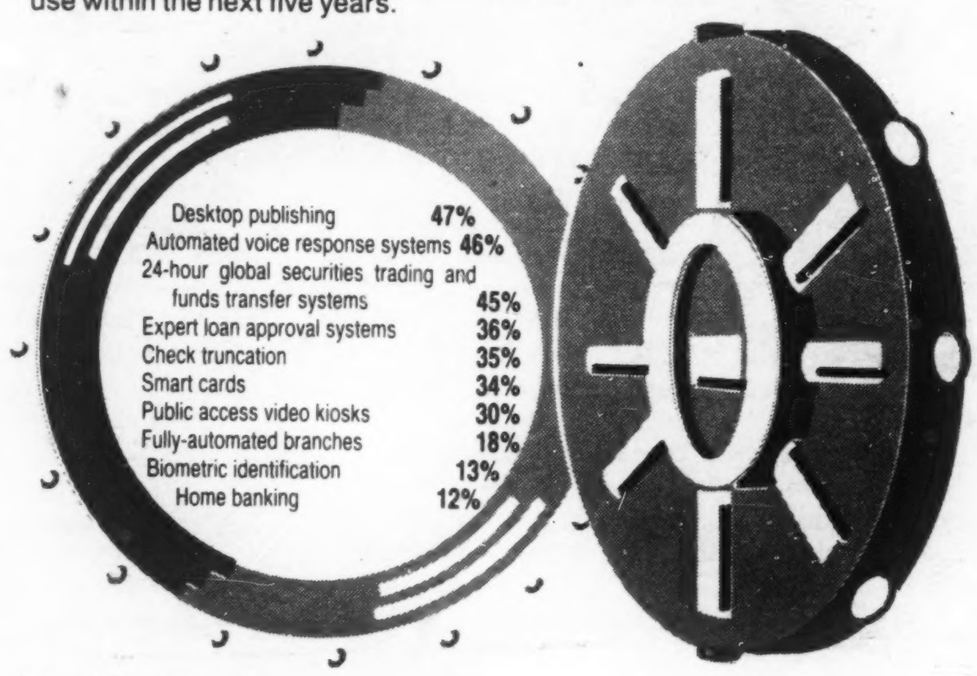
What's in Store for the Future

Almost half of the nation's bankers say desktop publishing and automated voice response systems are likely to be in widespread use within the next five years.


Desktop publishing 47%
Automated voice response systems 46%
24-hour global securities trading and funds transfer systems 45%
Expert loan approval systems 36%
Check truncation 35%
Smart cards 34%
Public access video kiosks 30%
Fully-automated branches 18%
Biometric identification 13%
Home banking 12%

Base: 187 commercial banks
Source: *American Banker* Technology Survey 1987

Greenspan Urges Banking Committee To Concentrate on Securities Powers

By ROBERT M. GARSSON
Washington Bureau

WASHINGTON — Federal Reserve Board Chairman Alan Greenspan told the Senate Banking Committee Tuesday that it should focus on legislation permitting banks to affiliate with securities firms and leave more ambitious measures for another day.

In his testimony, the central bank chief specifically endorsed a bill sponsored by Sen. William Proxmire, D-Wis., and Sen. Jake Garn, R-Utah, that would repeal sections of the Glass-Steagall Act that prevent banking concerns from underwriting most types of securities.

More comprehensive legislation introduced by Sen. Timothy Wirth, D-Colo., and Sen. Robert Graham, D-Fla., has desirable features that could be added to the Proxmire-Garn bill, Mr. Greenspan said. But it permits banks to enter too many fields too quickly.

"It seems to us that there are major advantages to proceeding on an incremental basis, starting with securities powers — where the rationale for change has been clearly established," he said.

The Graham-Wirth bill would permit banks to affiliate with a broader array of financial services firms, including insurance companies. It was

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IN THE NEWS

Court Backs FDIC in Loan Suit

WASHINGTON — The Supreme Court on Tuesday bolstered the power of federal regulators to collect debts owed to failed banks that are taken over by the government. The court ruled 8-0 against a Louisiana couple seeking to avoid repayment of a $468,000 loan that financed the purchase of a farm. The couple argued the loan is invalid because the now-closed bank had misrepresented the value of the property. Justice Antonin Scalia, writing for the court, said the Federal Deposit Insurance Corp. must be able to rely on bank records when it takes over a failing bank, and that a loan secured by alleged misrepresentations is not canceled in such circumstances. The FDIC is therefore entitled to repayment of the loan, the court ruled.

Customs Starts Taking Cards

WASHINGTON — The U.S. Customs is accepting Visa and MasterCard as payment for customs duties at four international airports in the United States. Ten other major airports will begin accepting the cards beginning Feb. 1. The Treasury Department last October signed an agreement with four banks to handle payments to the government by Visa or MasterCard. Customs has selected Security Pacific Bank, Los Angeles, to handle its credit card program.

PaineWebber to Get Upgrade

NEW YORK — The long-term debt ratings of PaineWebber Group Inc. were put on review for possible upgrade by Moody's Investors Service. About $375 million of securities could be affected. The rating agency said, "The review has been prompted by PaineWebber's announcement of a $300 million capital infusion, in the form of preferred stock, by the Yasuda Mutual Life Insurance Co. of Japan."

Primerica on CreditWatch

NEW YORK — Primerica Corp.'s senior debt, subordinated debt, preferred stock, and commercial paper have been placed on Standard & Poor's Corp.'s CreditWatch with negative implications. About $740 million of debt is affected. Primerica recently announced a 5 million share stock repurchase, which may lead financial leverage to remain at higher levels than the rating agency had previously anticipated. And, Smith Barney, Harris Upham & Co., a Primerica unit, has underperformed S&P's expectations and probably will require capital support from Primerica.

Atlanta Thrifts to Merge

ATLANTA — First Liberty Financial Corp. has signed a nonbinding letter of intent to acquire Valdosta Federal Savings & Loan Association for $21 a share in cash, or $9.5 million. The merger is subject to approval by Valdosta's shareholders and federal regulators. Valdosta has assets of $62 million, and First Liberty has $1.06 billion in assets.

Arizona S&L to Be Acquired

PHOENIX — Prime Financial Partners has signed a letter of intent to acquire all of the outstanding stock of Universal Savings and Loan Association, Kingsman, Ariz., in an exchange of securities. The value of the deal was not disclosed. Universal has $118 million in assets.

— Compiled by Orest Mandzy

INVESTMENT BANKING

Money Center Banks' Trading Revenues

1982-1986 (millions of dollars)

Trading Account Profits[1]	1982	1983	1984	1985	1986
Bankers Trust	$81	$42	$66	$15	$166
Chase Manhattan	31	24	29	31	66
Chemical Bank	34	21	1	23	47
Citicorp	125	82	143	210	162
J.P. Morgan	50	30	52	78	97
Subtotal	**321**	**199**	**290**	**357**	**539**
Estimated Net Carry	73	135	315	337	311
Total Gross Income After Carry	**394**	**334**	**606**	**694**	**850**
Investment Banks Gross Income	692	1,228	936	1,290	1,536
Commercial Banks/Investment Banks	57%	27%	65%	54%	55%
Foreign Exchange Profits[1]					
Bankers Trust	46	28	68	108	57
Chase Manhattan	131	117	119	173	222
Chemical Bank	56	40	61	101	103
Citicorp	241	274	258	358	412
J.P. Morgan	57	74	30	173	230
Total	**530**	**533**	**535**	**913**	**1,025**

[1]Includes profits before carry for trading in U.S. government securities, municipal obligations, foreign securities, and interest-rate swaps.

Sources: Corporate reports, Sanford C. Bernstein estimates.

There's Life After Glass-Steagall For Wall Street, Report Says

In Short Term, at Least, Profitability Shouldn't Suffer

By JED HOROWITZ

NEW YORK — Commercial bankers, bolstered by Reagan administration and congressional support, say they smell victory in their attack on Glass-Steagall Act restrictions. But at least one analyst thinks investment banks should not lose sleep over bank competitors.

"The impact of the commercial bank entry would probably be felt most severely in corporate equity and debt underwriting, producing pressure on spreads," wrote Michael Goldstein in a new report for Sanford C. Bernstein & Co. However, he added, "it seems unlikely that commercial bank entry will significantly worsen profitability."

Mr. Goldstein offered a somber explanation, however. The big Wall Street houses, he wrote, already are seeing return on equity sag because of "existing competition and cyclical forces." Commercial banks, at least in the beginning, will be a negligible influence.

Nevertheless, in areas where commercial banks now meet Wall Street head to head, they have made some progress. Mr. Goldstein compiled statistics on market share in government bond trading, Eurobond underwriting, municipal bond underwriting, private equity and debt placements, and swaps.

"Commercial banks have a composite market share of 10% to 30% in most of the businesses in which they now compete direetly with the investment banks," he wrote in a report titled "The Investment Banking Industry."

And in one area — currency and interest rate swaps — banks are dominant. Major commercial banks arranged 70% of all currency and interest rate swaps in 1986.

In the related area of foreign exchange trading, the banks also display a Midas touch. The five largest U.S. banks reaped $1.7 billion in revenue from foreign exchange trading over the past 18 months, including almost $700 million in the first half of 1987. Investment banks' currency trading revenues pale by comparison.

Mr. Goldstein predicts that banks will subsidize their push into new underwriting areas with foreign exchange trading profits. However, he wrote, the securities industry has little to fear from their competitors in the short term.

Commercial Bank Market Shares

	1986
U.S. Securities Trading	20%
Municipal Bond Underwriting	27
Private Placements	19
Private Debt Placement	26
Swaps	70
Eurobond Underwriting	10

Sources: Federal Reserve Board, Investment Dealers Digest, Euromoney, Sanford C. Bernstein estimates.

The brass ring for banks is the right to underwrite corporate securities. But initially, they are moving into less profitable areas — underwriting commercial paper, mortgage-backed securities, other asset-backed securities, and municipal revenue bonds. Mr. Goldstein predicts that the banks eventually will win 20% to 30% of the total municipal bond market, and a somewhat lesser share of the commercial paper and mortgage-backed markets.

"The implications for investment bank profitability [in these areas] are relatively minor," he concluded. The top investment banks — First Boston Inc., Morgan Stanley Group, and Salomon Brothers Inc. — earned only about 7.5% of their profits, or $400 million, from the three areas in 1986.

Many brokerage firm officials say banks can have these markets. Profit margins are slim or nonexistent, in part because money center banks already have whittled fees through their placement of commercial paper and other securities. Salomon Brothers' well-publicized move out of municipal bond underwriting and commercial paper, followed by trimming by several other firms in these areas and in mortgage-backed securities, typifies the attitude.

Few Wall Streeters, however, doubt that the banks have the muscle to compete in the corporate market. In Europe, where there are no Glass-Stea-

Investment: Page 8 ➡

Banks Helped PaineWebber Find Investor

By DAVID NEUSTADT

NEW YORK — Two commercial banks, Morgan Guaranty Trust Co. and Bankers Trust Co., filled the investment banking roles when a Japanese company acquired a stake in PaineWebber Group Inc.

Morgan represented PaineWebber, while Bankers Trust worked with Yasuda Mutual Life Insurance Co.

This transaction shows the strength of commercial banks in international merger and acquisition work, according to Stephen Goodman, a managing director at Bankers Trust. For example, foreign companies participated in 23 of the 41 public deals Bankers Trust handled in 1986. Only about 30% of Wall Street's deals involve foreign companies, Mr. Goodman said.

Yasuda is buying 6.7 million shares of PaineWebber preferred stock and warrants for $300 million, which will give the Tokyo-based company an 18% stake in the brokerage firm. If converted into common stock, the warrants would increase its holding to 25%.

PaineWebber, one of the few remaining independent brokerage firms, will get a friendly stockholder, which should block any takeover attempts. The firm's capital will increase to $1.45 billion, which will help expand its merchant banking and trading activities.

Yasuda, Japan's fifth largest life insurance company, will get international investment expertise and can expect a good return on its investment.

"The key point from our client's perspective is the financial return," said Mr. Goodman. "The preferred stock has a 7% coupon, and there is some potential for capital appreciation."

Other Wall Street firms have sought ties with Japanese companies. Nippon Life Insurance has invested in Shearson Lehman Brothers Holdings Inc. and Sumitomo Bank in Goldman Sachs.

Decision Made in June

PaineWebber decided in June to seek a Japanese investor and tapped Morgan to conduct the search. When asked if Morgan was picked to avoid giving the sensitive job to an investment banking competitor, PaineWebber chairman Donald Marron said no. Morgan has "the best range of relationships in Japan" among both investment banks and commercial banks, he said.

Morgan did its analysis well, Mr. Marron said. The firm picked Yasuda as the best fit, and it was the first and only Japanese company approached, he said.

Morgan has been active in Japan for many years. In the 1920s, it helped the Japanese government arrange its first U.S. dollar-based borrowing. The bank set up an office in Japan in 1961 and helped Sony issue American depository receipts in 1962, a first for a Japanese company.

Bankers Trust has been increasing its activity in the Far East. Earlier this year, it opened a merger office in Tokyo.

Yasuda picked Bankers Trust as its adviser after it was approached by Morgan, according to Mr. Goodman. "Probably, there was the feeling that in dealing with a securities firm, [Yasuda] might be slightly better off with someone that was not directly a competitor," Mr. Goodman said.

Bankers Trust has also been involved in several other cross-border financial services transactions, according to Mr. Goodman. ■

MARKETING MANAGEMENT

Managers Must Pique the Entrepreneurial Spirit

By PAUL A. WILLAX

ALAS, AMONG THE scores of vendor booths at the recent U.S. League annual conference in New Orleans, I was able to find only one sales outlet offering the commodity most essential to the future success of the savings industry.

There, amid the key chains, computer consoles, and cash machines, was a lone purveyor of management talent — an executive recruiting firm offering to hunt for the kinds of managerial resources that the attendees would have to gather around them if their institutions are to survive the tumult of their near-term future.

Perhaps the small representation of the executive recruiting industry reflected the fact that most of us attending the conference were confident that, if we participated in all the sessions, listened intently, and tried real hard to implement what we heard, everything would come out all right once we got back home.

Many of us, I'm sure, were convinced that, with a little help, our heads could function just as well — probably better — than the new ones the hunter in the exhibition area was offering to find for us.

This simplistic conclusion of course

Tom Bloom

sidesteps the fact that, as senior managers, we must be concerned with the quantity of our management as well as its quality.

There must be a sufficient amount of management in our shops to supplement our own talents, whatever they may be. For purposes of this article, however, we'll leave that topic undisturbed, and focus on a related but even more critical issue: Given that quality and quantity standards can be met, what kind of manager are we looking for? What characteristics mark the type of executive leader that is essential to our task?

It is clear, this writer believes, that more than a traditional B-school manager is called for. While good management has always been the vital ingredient in the business process (To paraphrase Harry Truman: "All bucks stop there."), a unique brand of management leadership is needed now, because we are confronted with totally new and different and threatening circumstances where:

- Volatility and rapid change plague our marketplaces.
- Rebuilding and refitting our basic institutional structures is a primary task.
- Traditional planning is encumbered by a discontinuity of events.
- Opportunity exploitation is an essential key to "winning."
- Risk is unavoidable.
- Competition is advantaged; unburdened by regulation or impedimenta of the past.
- A single decision can make or break a company.

Given this daunting environment, and the enormity of the tasks that must be accomplished within it, it is this writer's belief that today's and tomorrow's generations of thrift managers — our "new generations of leadership" — must be entrepreneurs, innovators, and doers who are true to a compelling vision.

On one hand, they must be big-picture strategists willing to invest copious amounts of sweat equity in a relentless drive toward the mountaintop that others perceive only dimly in the distance. On the other hand, they must also be pragmatic, hardworking, risk-managing, street-smart tacticians who not only can see the forest for the trees but can spot the shortcut through the bushes.

Those 'E Words'

To be sure, "entrepreneur" and "entrepreneurial" have become the somewhat overworked "E words" in the business world, rivaling the all important "Y word" in our consumer marketplaces. But it can be argued that the comprehensive, on-point definition of entrepreneur has been frequently misunderstood and misused, thereby depriving it of its rightful significance in the affairs of our contemporary savings industry.

In most instances, we have tended to think of an entrepreneur as the ingenious founder of his or her own business — the builder of the better mousetrap or the Model A Ford.

However, in his research as a professor at the Center for Entrepreneurial Leadership at the State University of New York at Buffalo, your writer has learned that the builder of a better mousetrap is only one species in the genus "entrepreneur" — the classic entrepreneur, who sees a need and acts to fill it at a profit. This type is often thought to be born, not made. (And research tends to support this conclusion.)

But there are two equally important species of entrepreneurs, and both are more important from our industry's standpoint. First, we have the "intrapreneur," who works within the organization, developing new functions and product lines and exploring new business opportunities.

Secondly, there is the "change-agent," who manages renewal efforts and charts the turnaround of enterprises that are striving to remain competitive, viable, and profitable in a changing environment.

By way of illustration, if your business was in rodent control, the change-agent might be engaged in making your old traps better, cheaper, and more sal-

Willax Says:

The 'intrapreneur' works within the organization, developing new functions and product lines and exploring new business opportunities. The 'change-agent' manages renewal efforts and charts the turnaround of enterprises that are striving to remain competitive, viable, and profitable in a changing environment.

able, while the intrapreneur might be involved in the engineering of a new type of "flute-tooting trap" that charms the mice into your company's diabolical devices.

Unlike mice or classic entrepreneurs, neither intrapreneurs nor change agents are necessarily the products of their respective genetic pools. They can, in contrast, be "grown" to the extent that their potential for entrepreneurship is recognized and encouraged.

Therefore, despite the inevitable "nature versus nurture" debates, there is documented evidence (this writer's employer among the examples) that a company can nurture an entrepreneurial spirit and make business leaders out of its managers.

Dual CEO Title

Obviously, any attempts to cultivate a pervasive entrepreneurial esprit must begin at the top of the shop with a transformation of the "chief executive officer" to the "chief entrepreneurial officer."

This change in title cum mind-set is essential in order to effectively short-circuit the traditional managerial lock-

Marketing: Page 18 ➤

Mr. Willax is the chairman and chief executive officer of the Empire of America Federal Savings Bank, Buffalo, N.Y.

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Editor: William E. Zimmerman
Managing Editor: Robert W. Casey
News Editor: Thomas J. Ferris
Associate Editors: Laura Gross, Sanford Rose, David O. Tyson
NEWS BUREAUS:
Washington: Chief, Robert Trigaux, 911 National Press Building, Washington, DC 20045; (202) 347-5529
Midwest: Chief, Richard Ringer, 53 W. Jackson Blvd., Suite 230, Chicago, Ill 60604; (312) 663-6380
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London: Chief, John J. Duffy, American Banker, c/o Infopac S.A., 31-35 Beak St., London W1R 3LD England; (01) 439-3066
Feature Editions Editor: Patricia Stundza
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ECONOMIC PERSPECTIVE

Twin Threats Pose a Test For Greenspan

By ROBERT J. SAMUELSON

IT'S HARD TO ENVY Alan Greenspan, the new chairman of the Federal Reserve Board. The Fed regulates interest rates, but in the wake of the stock market crash, dangers lurk no matter how Mr. Greenspan moves rates. Higher rates could threaten an economic slowdown or recession. Lower rates could cause a dangerous collapse of the dollar and higher inflation.

In some ways, Mr. Greenspan was one of the big winners of the stock market crash. It enabled him to escape quickly from the shadow of his predecessor, Paul Volcker. No one ever doubted Mr. Greenspan's intelligence or his credentials as an economist. But crisis management is an art — not a science — and everyone wondered whether Mr. Greenspan had the needed instincts and skills. For the moment, he has quieted the critics.

When the market dropped sharply, he acted decisively. The Federal Reserve made added credit available to banks, which could lend to hard-pressed brokers or mutual funds. The financial panic did not feed on itself because securities firms became insolvent. Despite this impressive performance, the basic question about Mr. Greenspan's leadership remains unanswered: How will he cope with the twin threats of inflation and recession?

His freedom to maneuver is modest. In the weeks since the crash, the global dimensions of the economic impasse have become clear. For the first half of the 1980s, the world economy grew in a dangerously unstable way. The United States' huge appetite for imports propelled other economies. The immense U.S. trade deficit corresponded to the enormous trade surpluses of West Germany, Japan, Taiwan, and other countries. The question now is whether this pattern of global growth can be gracefully reversed or whether it ends in a worldwide recession.

Traditional Medicine

Lower interest rates are the traditional medicine for an economic slowdown. Indeed, the Fed cut a key interest rate after the crash as a means of providing short-term emergency credit. The so-called Fed funds rate was reduced from about 7.5% to 6.75%. Mr. Greenspan's dilemma is that he can't go much farther down this path — maybe he's already gone too far — without creating as many problems as he solves.

All the evidence points to continuing U.S. prosperity. There's already something of a mini-export boom. In the third quarter, gross national product grew at a brisk 4.1% annual rate. Of course, the stock market crash could change the outlook. Overburdened by debt and alarmed by the crash, consumers may delay spending. But unless the effect is dramatic, lower interest rates risk overheating the economy and worsening inflation.

The unemployment rate is now 6%. Factory utilization is rising sharply. The economy can't tolerate both an export boom and strong domestic spending without fostering inflationary pressures. All inflation indexes are rising

Perspective: Page 17 ➤

Mr. Samuelson also writes a biweekly column for *Newsweek* magazine. His column for the *American Banker* appears every other Wednesday.

Fed Approves Four Mergers, Dismisses Redlining Complaints

By BARBARA A. REHM
Washington Bureau

WASHINGTON — The Federal Reserve Board has approved merger applications by four bank holding companies, despite concerns of diminished competition and protests of poor community investment records.

After review, the Fed dismissed the reinvestment complaints.

Valley National Corp., Phoenix, was given approval on Monday to acquire California Valley Bank, Fresno. With $9.2 billion in deposits, Valley National is Arizona's largest banking firm. California Valley Bank, with $170 million in deposits, ranks 170th of 432 banking concerns in that state.

The Fed did not raise any issue about the possible effect of this merger on competition, but it did weigh protests by PPEP Housing Development Corp., Tucson, and the Salt Lake Citizens Congress, Salt Lake City. These groups claimed that Valley National's subsidiary bank does not cash government checks for all people with valid identification and does not have a reasonable reinvestment record in rural areas.

"A review of [Valley National Bank's] loan portfolio indicates that there is a reasonable distribution of loans between urban and rural areas, given the fact that over 75% of the state's population resides in Phoenix or Tucson," the Fed said.

Valley Bank of Nevada, Las Vegas, with $1.3 billion in deposits, also gained Fed approval on Monday to merge with Security Bank of Nevada, Reno, with $429 million in deposits. In this case, the Fed cited concerns of concentration of assets and deposits and reduced competition, because the two banks serve four common markets. However, thrifts in each of these areas "exert a significant competitive influence that mitigates the anticompetitive effects of this proposal," the Fed concluded.

Equimark Corp., Pittsburgh, also got the go-ahead from the Fed to acquire Liberty Financial Group Inc., Horsham, Pa. Equimark is the 11th largest Pennsylvania banking organization, with $2.1 billion in deposits. Liberty is the state's 33d largest banking company with deposits of $357.8 million. The Fed approved the merger on the condition that Liberty discontinue investing in real estate through its subsidiary, Wynnewood Plaza Inc.

Finally, the Fed approved the acquisition of Delaware Trust Co., Wilmington, by Meridian Bancorp, Reading, Pa. Meridian is Pennsylvania's fifth largest banking company, with deposits of $5.4 billion. Delaware Trust is that state's third largest with $952 million in deposits. The Fed noted no concentration problem with this merger, because the two "do not compete directly in any banking market."

The Fed dismissed community reinvestment complaints charging discrimination in lending against both Meridian and Delaware Trust. Both concerns have favorable records, the Fed said, and have outlined specific future steps to improve their community investment practices. ■

Maryland Bank Plans Issue Backed by Credit Cards

By EVELYN WALLACE
The Bond Buyer

NEW YORK — Maryland Bank's $500 million of securities backed by credit card receivables, targeted for pricing next week, is an issue that promises to bring some new twists to the now-familiar asset-backed format.

The proposed deal will be the first public asset-backed sale for Newark, Del.-based Maryland Bank, which has a $2.4 billion portfolio of credit card receivables. Maryland is the sixth largest bank credit card issuer, the third largest MasterCard issuer, and the largest issuer of premium MasterCards in the country, according to the bank.

The First Boston Corp. will lead manage the MasterCard and Visa-backed deal, which could possibly be priced late this week. Goldman, Sachs & Co. will act as comanager.

Although credit card-backed securities were not offered publicly until last January, the market has gotten off to a promising start. To date, about $1.9 billion have been issued, according to First Boston. Securities backed by auto loans, which were first sold publicly in May 1985, comprise the bulk of the $20.5 billion market for nonmortgage asset-backed securities, a First Boston analyst said.

Depending on market conditions and investor preference, Maryland Bank may offer its pass-throughs with a floating rate based on the one-month London interbank offered rate, a feature new to the public market for credit card-backed deals.

This would offer institutional investors one of the highest short-term yields available, without the risk of investing with a branch of a foreign bank, said Vernon Wright, a vice president and manager of capital markets at Maryland National Bank, the Baltimore-based sister bank of Maryland Bank.

Maryland National, Maryland Bank, and Washington, D.C.-based American Security Bank are the three major subsidiaries of Baltimore-based MNC Financial Inc.

The deal would also be the first in the public or private secondary market for credit card receivables to offer investors protection against irregular payments. For the first 36 months of the deal's life, investors would receive uniform interest payments, while principal payments are reinvested in other receivables, said Robert Houghton, an associate in the asset finance group at First Boston.

During the final 12-month amortization period, investors get back one-twelfth of their initial investment each month, Mr. Houghton said. This payment certainty allows institutional investors to better plan their reinvestment schedules.

Ground was broken for this type of structure in the collateralized mortgage obligation market, where planned amortization classes, or Pacs, have been popular since they were invented last year.

Maryland Bank expects to win a triple-A rating for its deal from Moody's Investors Service and Standard & Poor's Corp. The rating would be based largely on a letter of credit from a bank. The issue would be the second largest such deal to date, second only to First Chicago Corp.'s $800 million issue in September.

Selling assets gives the bank an alternative funding source to, say, issuing certificates of deposit or long-term debt, Mr. Wright said. It also allows the bank to continue expanding its portfolio.

Even though Maryland Bank has yet to participate in the public market for asset-backed securities, it has placed several issues privately. Last December, for example, Morgan Guaranty Trust Co. sold $175 million of its securities backed by Visa card receivables. ■

Investment Banks Will Weather Storm

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gall-like barriers, the capital-rich commercial banks are formidable competitors. Citibank, Morgan, Chemical, and Bankers Trust are in the top ranks in many Euromarket activities.

Closer to home, commercial banks have long been allowed to trade and sell government and government agency securities. Mr. Goldstein finds, however, that their "commitment to the trading businesses (as measured by long inventories) has grown at a rate well below that of the investment banks."

From 1979 through 1986, commercial banks' government bond portfolios grew at an annual rate of 19%, compared with 37% for the top investment banks. The growth rates fell to 17% and 23%, respectively, for other debt securities. On the other hand, commercial bank profits from trading activities have risen at about the same rate as those of their investment banking cousins, Mr. Goldstein wrote.

Many commercial bankers this year are bragging about their relative meekness. Their cautious bond trading saved them from heavy losses earlier this year when volatile interest rates lowered the value of bond portfolios, they say. Not all commercial banks, of course, were so conservative. J.P. Morgan saw profits in its $12 billion investment portfolio slide from an enviable $840 million at the beginning of the year to $47 million at the end of September. The recent drop in interest rates, however, has no doubt replenished some of Morgan's unrealized gains.

Mr. Goldstein did not discuss commercial banks' merger and acquisition advisory activities. But he supports the general wisdom that over the next five years the "supports of the mergers and acquisitions business" will be undermined by a variety of economic and fiscal factors. This can hurt the top investment banks, which he says garnered 50% of their net profit through merger fees and risk arbitrage from 1982 to 1986.

Commercial banks, however, spy opportunity. Since the market crash on Oct. 19, for example, the names of Morgan Bank, Chase Manhattan Bank, Chemical Bank, and Bankers Trust have dominated tombstone advertising in newspapers. Though commercial banks are still minor players in the mergers game, they are sending a clear message — we do friendly deals and offer long-term advice, they say. We have the capital and the talent to help with financing. ■

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